



Final report to the Partnership and the Controller of  
Audit on the 2016/17 audit

21 September 2017

# Contents

---

## 01 Our final report

Director introduction	3
Responsibilities of the Audit Committee/ Partnership	7
Our audit explained	8
Significant risks	9
Insights	12
Your annual report	13
Wider scope requirements	14
Purpose of our report and responsibility statement	16

---

## 03 Appendices

Audit adjustments	18
Fraud responsibilities and representations	19
Independence and fees	20

# Director introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Partnership for the 2016/17 audit.

As detailed in our plan presented to the Zetland Transport Partnership (“the Partnership”, “ZetTrans”) in February 2017, the new Code of Audit Practice, which came into force for 2016/17 audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

As set out in our plan, due to the relative size and scale of the functions delivered by the Partnership, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the partnership and the services that it delivers over the medium to longer term.

- *Public reporting and audit findings*
- *Wider scope reporting*

# Director introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### Statutory audit

#### **Conclusions from our testing**

- The significant risks, as identified in our audit plan, related to:
  - Completeness and accuracy of income; and
  - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

#### **Insight**

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to mitigate the risks of fraudulent activity. Insights from this analytics work has been noted for consideration by management and the Partnership, as detailed on page 13.

#### **Status of the audit**

- The audit is substantially complete subject to the completion of the following principal matters:
  - Update from Head of Legal and Governance on any legal issues;
  - Finalisation of our internal quality control procedures;
  - Receipt of signed management representation letter; and
  - Our review of events since 31 March 2017.

# Director introduction (continued)

## The key messages in this report (continued)

### Best Practice

#### Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 The Local Authority Accounts (Scotland) Regulations 2014 – management commentary. We have confirmed that the management commentary complies with the statutory guidance requiring local authorities, including transport partnerships, to include in the management commentary those matters which companies are required to disclose in a strategic report, with some modification to interpret for local authorities.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
  - information given in the management commentary is consistent with the financial statements;
  - the management commentary has been prepared in accordance with the statutory guidance;
  - information given in the annual governance statement is consistent with the financial statement; and
  - the annual governance statement has been prepared in accordance with proper practice.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- No Remuneration Report has been prepared as ZetTrans has no employees and the remuneration of the Chair and Vice Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of the Partnership. This has been appropriately disclosed in the Management Commentary.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Governance Statement**

Regulation 5 of the Accounts Regulations requires local authority bodies to undertake an annual review of their systems of internal control and report the results in an annual governance statement published as part of the annual accounts. The regulations require the annual governance statement to be prepared in accordance with proper practices in relation to internal control, which are those set out in Delivering Good Governance in Local Government: Framework 2016 published by CIPFA and SOLACE.

We have confirmed that the Partnership's governance statement is in compliance with this guidance and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2017 and date of authorisation which have not been included in the governance statement. We have confirmed that appropriate disclosure has been made in relation to the ongoing governance review which is expected to clarify and fully describe ZetTrans relationship with Shetland Islands Council (SIC). This includes a review of the statutory powers that have been transferred to ZetTrans. The outcome of this work will be followed up as part of our 2017/18 audit work.

#### **Financial Sustainability**

Total outturn for 2016/17 was £2,031k, which matched exactly the funding received from the Scottish Government and SIC. ZetTrans reported an underspend in the year of £106k compared to budget due to providing a more reliable bus service on certain routes that haven't required the level of repair and service costs anticipated in the budget.

Effective short- to medium-term budgeting is in place to assess ongoing risk of under/overspend, however SIC is statutorily obliged to fund the Partnership under Section 3 of the Transport (Scotland) Act 2005, therefore the main financial objective of ZetTrans is to deliver against its annual approved budget. Management accounts are prepared and reviewed monthly and discussed at board meetings quarterly where any outturn variances against budgets are investigated. An approved 2017/18 budget is in place, which is largely in line with 2016/17. As the financial position for SIC becomes more challenging, it is important the ZetTrans also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

No funding gaps or major risks have been identified in relation to the financial sustainability of the partnership.

**Pat Kenny**  
Audit Director

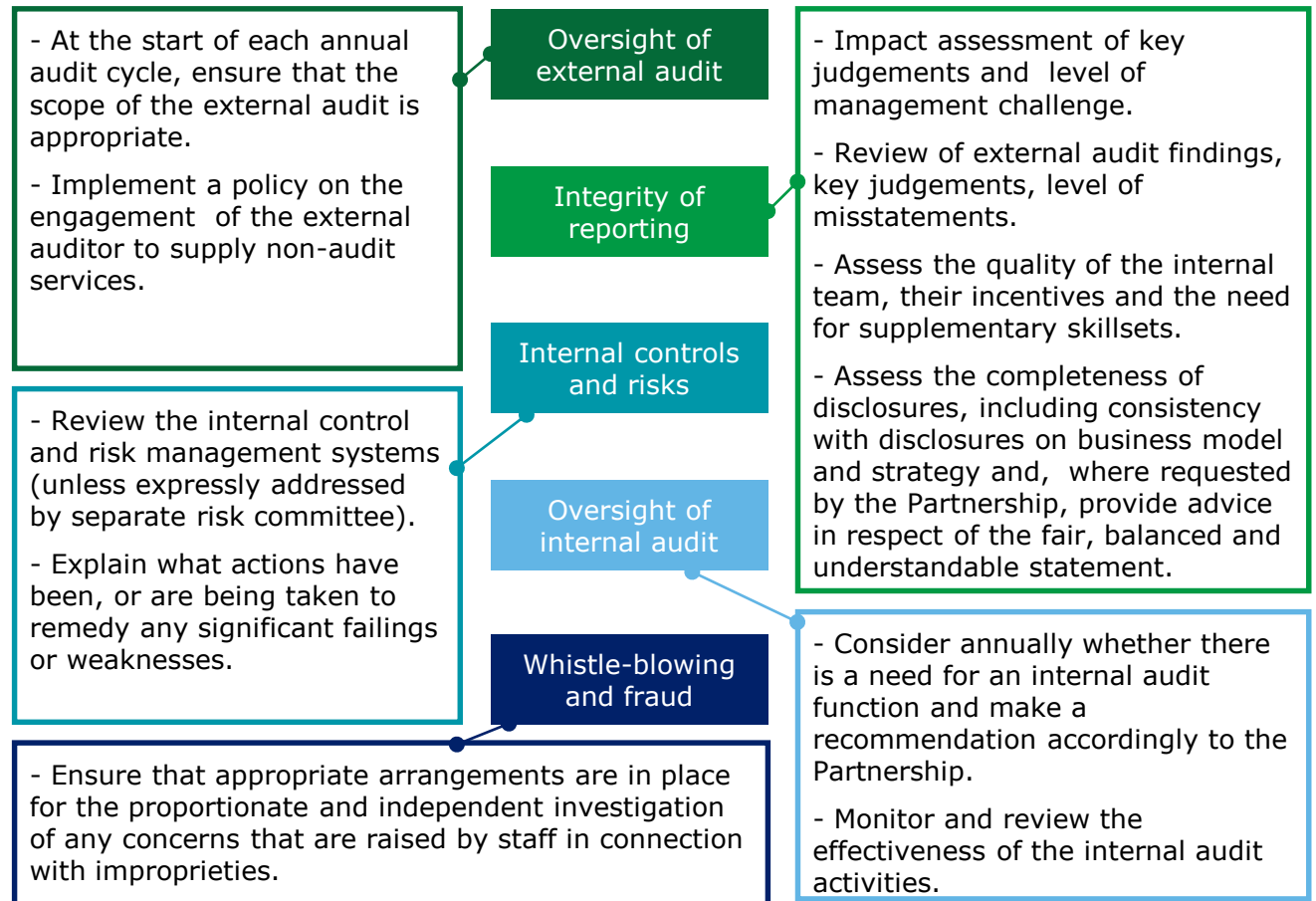
# Responsibilities of the Audit Committee/ Partnership

## Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Partnership:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Partnership's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Partnership with additional information to help them fulfil their broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee, which is part of the role of the Partnership, has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the Partnership and the services that it delivers over the medium to longer term.

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

## Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

## Key developments in your business

As noted in our planning report, ZetTrans continues to face financial pressures in achieving its remit with limited resources.

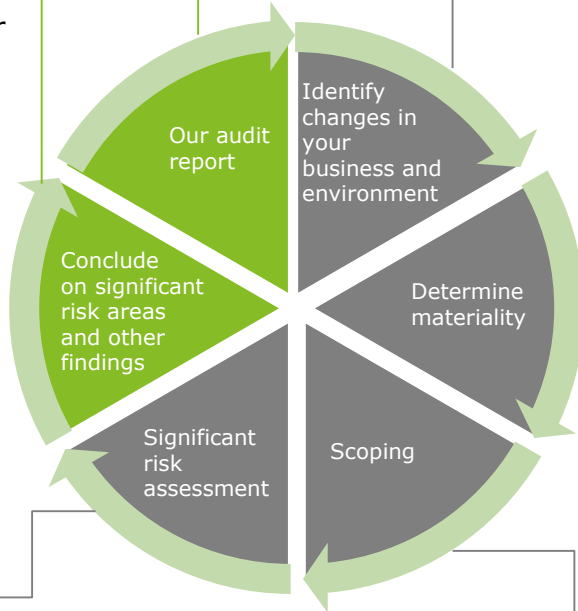
## Materiality

The materiality of £32k and performance materiality of £24k has been based on the benchmark of gross expenditure (£2,031k) and is in line with that reported in our planning paper.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £0.6k.

## Scope of the audit

We have audited the financial statements for the year ended 31 March 2017 of Zetland Transport Partnership.



## Timeline 2017

### November-December 2016

Meetings with management and other staff to understand the processes and controls.

**21 February 2017**  
Audit Plan presented to Partnership

### July - August 2017

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

**February 2017**  
Partnership meeting to present audit plan

**22 August 2017**  
Audit close meeting

### 21 September 2017







Partnership meeting and accounts sign off

## Quality and Independence

We confirm we are independent of the Zetland Transport Partnership. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		No issues noted with the design or implementation of this control.	10
Management override of controls			D+I	Satisfactory		No issues noted with the design or implementation of this control.	11



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Completeness and Accuracy of Income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Partnership are grants received from SIC and the Scottish Government. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received. In our planning paper, we had highlighted the risk to be around bus fare income, however, during the audit it was identified that the bus fare income is offset as part of the SIC grant funding therefore is not deemed to be a significant risk.

### Our Audit Approach

We have performed the following:

- Tested income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that the income matches the expenditure incurred in accordance with the Act; and
- Confirmed the management accounts have been reviewed on a regular basis monitoring expenditure and matched income.



### Deloitte view

We have concluded that income has been recognised correctly in accordance of the requirements of the Local Authority Code of Audit Practice.

# Significant risks (continued)

## Management override of controls

### Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Partnership.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

### Accounting estimates

Due to the nature of ZetTrans operations and interaction with SIC who are required to fund all expenditure incurred, there are very few accounting estimates processed by Zetrans therefore the risk of management override is low.

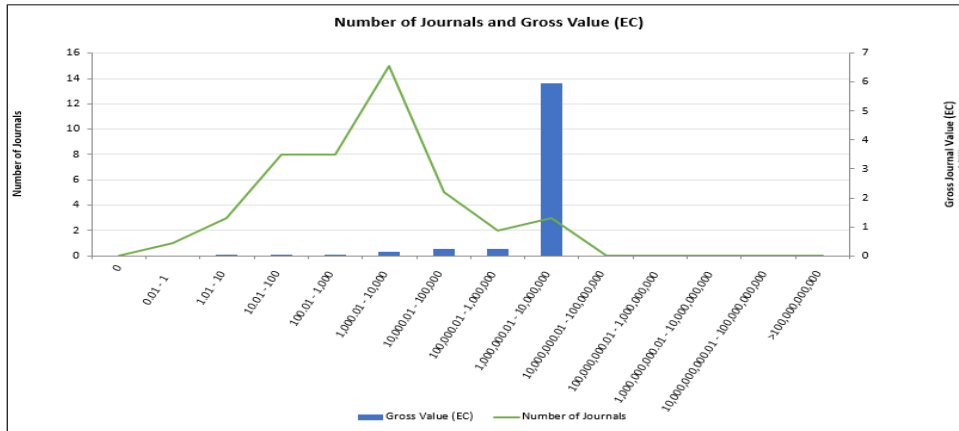
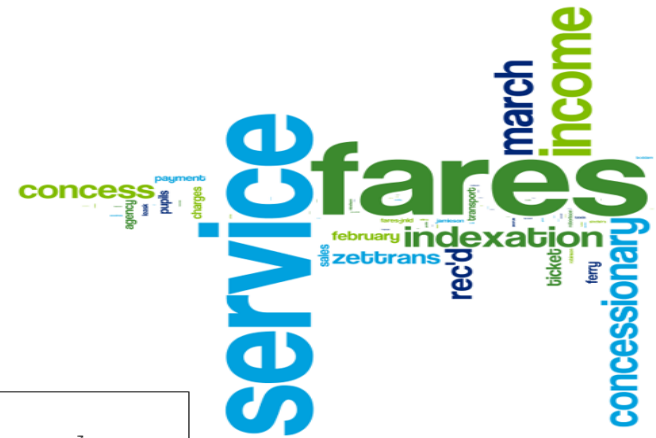
### Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

# Insights

We have utilised **Spotlight** to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

- The journal descriptions (as illustrated), did not highlight any unusual transactions descriptions and all were in line with our understanding of ZetTrans..
- There is a relatively high number of small value journals. While this could indicate an inefficient use of staff time processing small value journals, given the overall number of journals processed by ZetTrans is low, we do not consider this to be a significant issue.



# Your annual report

We welcome this opportunity to set out for the Partnership our observations on the annual report. We are required to provide an opinion on the performance report, the annual governance statement and the remuneration and staff report.

	Draft Annual Report	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions noted. We would, however, highlight that greater use could be made of graphs and charts to make the report more user friendly.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading</p>
Remuneration Report	No Remuneration Report has been prepared as ZetTrans has no employees and the remuneration of the Chair and Vice Chair of the Partnership is disclosed in the annual accounts of Shetland Islands Council. No additional remuneration is paid to officers or members for acting on behalf of the Partnership.	We have confirmed that this is in accordance with the statutory guidance and our understanding of the Partnership. We have also confirmed that these facts have been disclosed in the Management Commentary.
Annual Governance Statement	The Annual Governance Statement reports that Shetland Islands Council governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

# Wider scope requirements

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

### Deloitte response



We have monitored the partnership's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

### Deloitte view

Effective short-term planning is in place with management accounts being prepared on a monthly basis and quarterly accounts being presented to the Partnership. This identifies any expenditure variances which are discussed at partnership meetings. The budget for the following financial year is approved and funding has been allocated by the SIC.

As SIC is statutorily obliged to fund the Partnership under Section 3 of the Transport (Scotland) Act 2005, the main financial objective of ZetTrans is to deliver against its annual approved budget and no longer term plans are in place. As the financial position for SIC becomes more challenging, it is important the ZetTrans also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

### Short-term

Approved funding budget of £2,810k has been obtained from the SIC and regional transport funding for 2017/18 which is £27k (1%) lower than the 2016/17 approved budget. Deloitte is satisfied that the overall budget spend is unlikely to be exceeded in the year, and any funding gaps will be funded by SIC in accordance with the Act.

### Medium-term

Due to the size and nature of ZetTrans and its operations, there is no medium-to-long term financial plan in place.

# Wider scope requirements

## Governance statement disclosures

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.



### Areas considered

- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the good governance framework.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

### Deloitte view

The governance statement meets the requirements of the good governance framework and no inconsistencies have been noted between the disclosures and our knowledge gained during the audit.



### Deloitte response

In the year, there no notable changes in either board members or in the senior leadership team of ZetTrans.

We have confirmed that appropriate disclosure has been made in relation to the ongoing governance review which is expected to clarify and fully describe ZetTrans relationship with Shetland Islands Council (SIC). This includes a review of the statutory powers that have been transferred to ZetTrans. The outcome of this work will be followed up as part of our 2017/18 audit work.

No inconsistencies have been noted in relation to the disclosures or between the disclosures and our audit work.

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Partnership discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Partnership.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you with the planning report.

This report has been prepared for the Partnership, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



**Deloitte LLP**

Glasgow

6 September 2017



# Appendices



# Audit adjustments

## **Corrected misstatements**

- No corrected misstatements have been identified from our audit work performed.

## **Uncorrected misstatements**

- No uncorrected misstatements have been identified from our audit work performed.

## **Disclosure misstatements**

- Auditing standards require us to highlight significant disclosure misstatements to enable the partnership to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Partnership if anything arises from any outstanding work before financial statements are signed.

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Partnership to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Partnership to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the partnership on the process for identifying, evaluating and managing the system of internal financial control.

### Deloitte view:

From our year-end audit procedures and discussions with management we have noted there must be a more robust documentation process of meetings that have occurred in relation to the preparation of Management accounts. Meetings should be documented, or there should be documented follow up communication with action points from the meeting.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

---

## Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

---

## Fees

The audit fee for 2016/17 is £10,187 as detailed in our Audit Plan.

No non-audit fees have been charged by Deloitte in the period.

---

## Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

---

## Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

---





Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

© 2017 Deloitte LLP. All rights reserved.